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## China - Peoples Republic of

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### Xi'an Market Report

**Report Categories:**

Market Development Reports

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**Report Highlights:**

Since the 1999 launch of the national Great Western Development Strategy, Xi'an has grown rapidly as a major gateway to western China. With annual economic growth exceeding 13 percent, the city was spared the effects of the global financial crisis that affected China's coastal areas. Xi'an's rapid development has boosted incomes and fueled development of its food market sharply increasing interest in high quality imported foods. Demand is also being driven by the city's rapidly growing tourist sector, which is attracted by famous sites such as the 2,300-year old terracotta warriors. In the years to come, increasing development will make Xi'an a "must do" Emerging City Market in northern China.

**General Information:**

## Xi'an & Shaanxi Overview



Located near the geographical center of China, Xi'an is the largest city in the northwest. It is also the capital of Shaanxi Province and its largest population center. Of the 37 million people in the province, Xi'an is home to 8.2 million. The city dominates the province economically and culturally. Outside Xi'an, per capita incomes are low in Shaanxi. In 2008, per capital income in Shaanxi was a modest \$2,629.

With a 3,000 year history, Xi'an is also one of China's most culturally important cities. Founded during the Zhou Dynasty (1045-256 BC), Xi'an was the capital of a newly united China during short-lived Qin Dynasty (221-206 BC). During the time, Emperor Qin Shi Huang directed the construction of the famous terracotta warrior complex. Xi'an was capital of China during the Tang Dynasty (618-904), when it was called "Chang-an" and had more than a million inhabitants. At this time, Xi'an was by far the largest and richest city in the world.

Although the city is no longer a capital, Xi'an still serves as the cultural and economic center of northwestern China and plays an important role in the development of the region.



Terracotta Warriors, Xi'an

**Table 1: Xi'an Economy at a Glance:**

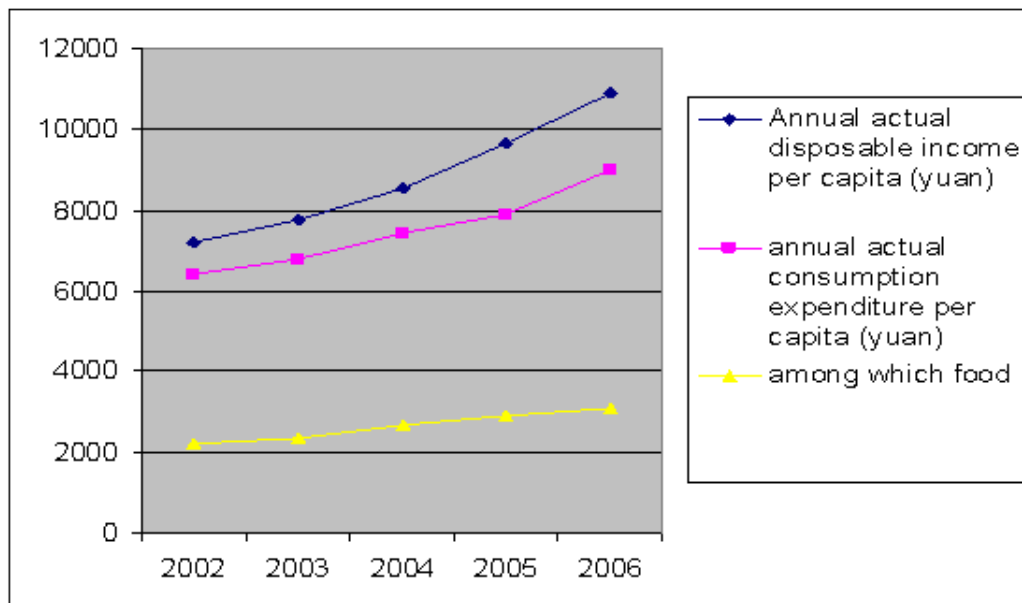
Population	8.2 million
GDP	RMB 147.4 billion

Value-Added Industrial Output	RMB 49.4 billion
Fixed-Asset Investment	RMB 106.7 billion
Total Retail Sales of Consumer Goods	RMB 77.6 billion
Total Foreign Trade	US\$ 4.15 billion
Exports	US\$ 2.73 billion
Foreign Direct Investments	US\$ 825 million
Tourism Income	RMB 20.4 billion

Source: Xi'an Statistical Yearbook 2007

Although the city is growing rapidly, per capita income still lags its sister cities on the coast. But with annual growth of 13 percent, the city is expanding four percent more rapidly than the national average. The major growth drivers are huge investments and policy benefits brought by the Great Western Development Strategy, and considerable investment from the coastal areas seeking cheaper land and labor costs. This is reflected through the growth of the local residents' disposable income, expenditure and food expenditure.

**Table 2: Growth of Disposable income, Expenditure and Food Expenditure of Xi'an Residents 2002 – 2006 (RMB Yuan)**



Source: Xi'an Statistical Yearbook 2007

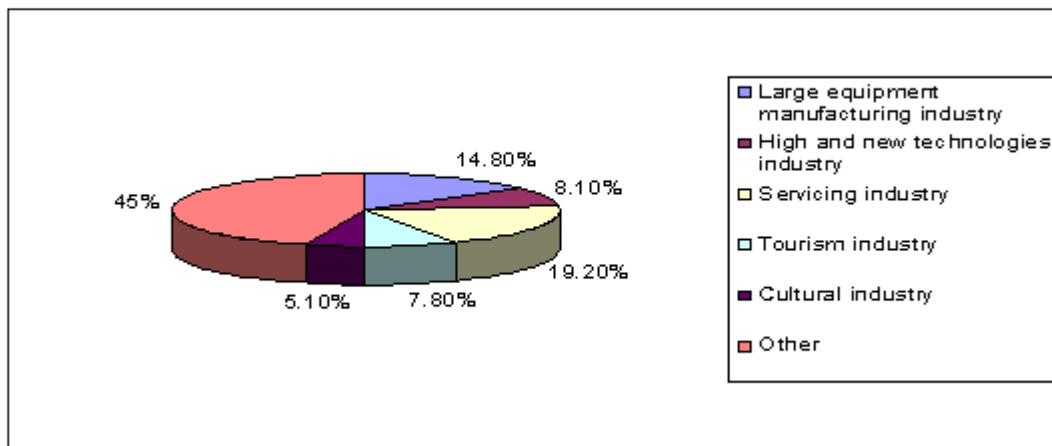
Xi'an's development has also been reinforced by its large equipment manufacturing industry, strong high tech sector, and large tourism industry. Collectively, these industries make up 55 percent of total GDP.

The city's equipment manufacturing industry is a heritage of its military industry when Xi'an was selected as a major equipment manufacturing base after 1949. Since China's opening and reform, most factories were switched to civilian use. The industrial sector has also received investment from foreign manufacturing giants such as Boeing and Airbus.

As home to 47 higher education institutions, 365 science research institutions, and 391,000 research and engineering professionals, Xi'an is one of the top academic and research centers in China. This has given the city considerable prowess in the high-tech sector.

Thanks to its long history and major tourist attractions, Xi'an is one of the top tourism destinations in China, hosting almost a million visitors annually. In 2007, the tourism income was RMB 20.4 billion, accounting for 7.8 percent of its overall GDP.

**Table 3: Xi'an's Economy, 2006**



*Source: Xi'an Statistical Yearbook 2007*

Unlike the coast, Xi'an was minimally affected by 2008 financial crisis affected for several reasons. Most importantly, unlike the coastal cities, Xi'an is not export-oriented. Some other reasons include the favorable policy environment, the strong development generated by the coal and gas mining in north Shaanxi province, and the demand increased by returned farmer workers who were laid off from coastal areas.

## Retail Sector

The past five years has seen a rapid expansion of supermarkets and hypermarkets in Xi'an. While the city only had 25 supermarkets in 2004 by 2009 the number reached 63.

**Table 4: Major Retailers in Xi'an at a Glance:**

Retailer	Ownership	Type	Outlets
Carrefour	France	Hypermarket	1
Vanguard	Guangdong	Hypermarket	22
Wal-Mart	United States	Hypermarket	3
Metro	German	Cash-Carry	1

The China Resources (CR) Vanguard dominates the hyper market sector with 22 stores, accounting for 53 percent of the hyper markets in Xi'an. Their target buyers are the lower middle class consumers and 99 percent of their products are domestic. During an ATO visit, only 1-2 American products were found on the shelves. Food products account for a relatively large proportion (almost 3/4) in terms of sales – which fresh food takes about 20 percent. The Vanguard group has also established an advanced distribution center in Xi'an, and a frozen food distribution center with a capacity of 1,500 tons that will start operations by 2010.

Most major international retailers also have a presence in Xi'an, including Wal-Mart (three stores), Carrefour (one store) and Metro (one store). RT-mart and Lotus Supermarket are planning to open stores very soon. Generally, the international hyper markets sell more imported products than Vanguard, but their section of products is small – except for Metro.

Metro has many more imported products on its shelves than the other large retailers. Its interest in imports comes from its focus on star hotels and high end stand-alone restaurants who purchase in bulk. The selection of imported wine, dairy food, snack food, and fruits is wider than the other stores, but still lags far behind the number of domestic items.

The highest end retail outlet is Century Ginwa, a company that runs five department stores in Xi'an. More than half the products sold in its affiliated supermarkets are imported from across the world.

According to a local importer, lack of suppliers and proper sales channels constrain the sale of U.S. products in Xi'an. Despite this, there are always a few American products found in Metro and Century Ginwa including wine, beer, dairy food, snack food, and fruits. However, market share is dominated by products from the major competitors including Australian wines,

German beers, European snack food, and New Zealand dairy products.

#### Findings:

- Although the retailing sector is huge and developing rapidly, it takes more time for imported U.S. products to be accepted by common people because of high prices.
- However, the high-end sector is ripe for development. Mid-to-high end retailers such as Century Ginwa and Metro are attractive partners.

#### Potential products:

- Wine and snack foods, which are usually favored by those who are wealthier sooner. Poultry meat is another attractive product.

### **Hotel Restaurant and Institutional (HRI) Food Service Sector**



Xi'an cuisine usually features noodles, bread, and heavy, starchy food items with complex, savory flavors. Xi'an also has a good reputation for its diversity of noodle food and Muslim food. Meat products such as pork, beef and mutton are popular. While pork is demand is strong, the deeply rooted Muslim culture drives demand for beef and mutton. For instance, one of the most famous local foods is call "Chinese bread in

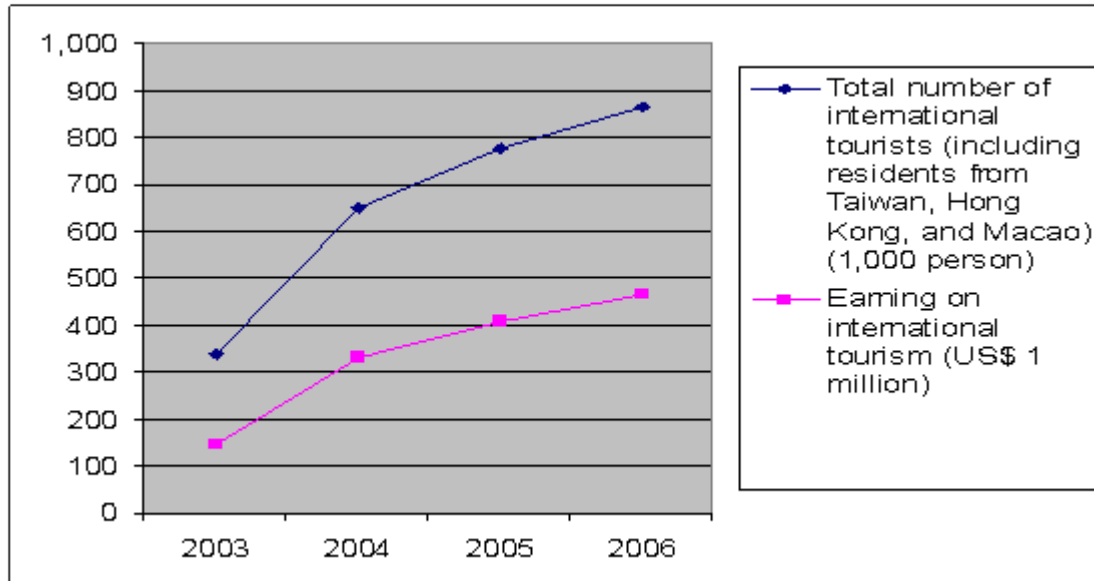
Mutton/Beef Soup". What's more, it is also noteworthy that Xi'an is consuming more poultry products over the past years at an annual growth of 10 percent, exceeding the increase for the other meats.

The HRI sector in Xi'an is large but still rapidly developing for two major reasons. One, Xi'an people enjoy eating outside in summer time. In many families, young people eat outside without home cooking for as long as four months. Two, Xi'an's tourism attractions and plentiful business opportunities are attracting visitors from all over China and across the world, greatly boosting its food service sector.

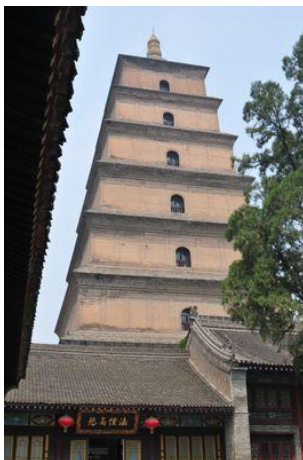
Many international hotel brands, including Shangri-la, Hyatt Regency, Sheraton, Sofitel, and Kempinski have a presence in Xi'an. Xi'an is attracting international tourists with an average

yearly growth rate of over 30 percent. It is expected that the robust growth of the hotel industry in Xi'an will continue in coming years

**Table 5: Xi'an Tourism Growth 2003-2006**



Source: Xi'an Statistical Yearbook 2007



The HRI sector was affected by the financial crisis. Although the stand-alone restaurants targeting at the mid-low end consumers felt little change, the high-end restaurants and hotels suffered. It was reported that the high-end stand-alone restaurants, which were the first choices of work lunches and business banquets, saw sales decline following the financial crisis in the fourth quarter of 2008.

The ATO Beijing observed that business in the high-end hotels such as Hyatt Xi'an was unusually quiet during the summer. In August 2009, it was possible to book rooms easily – which is a contrast compared with the pre-financial crisis years, when August was the peak season. The depression of these restaurants and hotels has naturally led to reduction of consumption of high quality foods and imported food ingredients. However, with the ongoing rebound, ATO Beijing believes the HRI sector in Xi'an will grow again very soon.

Because of its inland location, its acceptance of western food and food ingredients is lower than on the coasts with the vast majority of imported food consumption in the HRI sector in

luxurious hotels and focused on items such as bottled water, cheese, wine and seafood.

#### Findings:

- It is important to have good marketing activities as soon as possible, as HRI is much more developed than retailing. However, it should be focused on high-end businesses.
- Given the traditional consumption of beef in the area, there is reason to expect a surge in U.S. beef sale in the market once the ban is lifted.

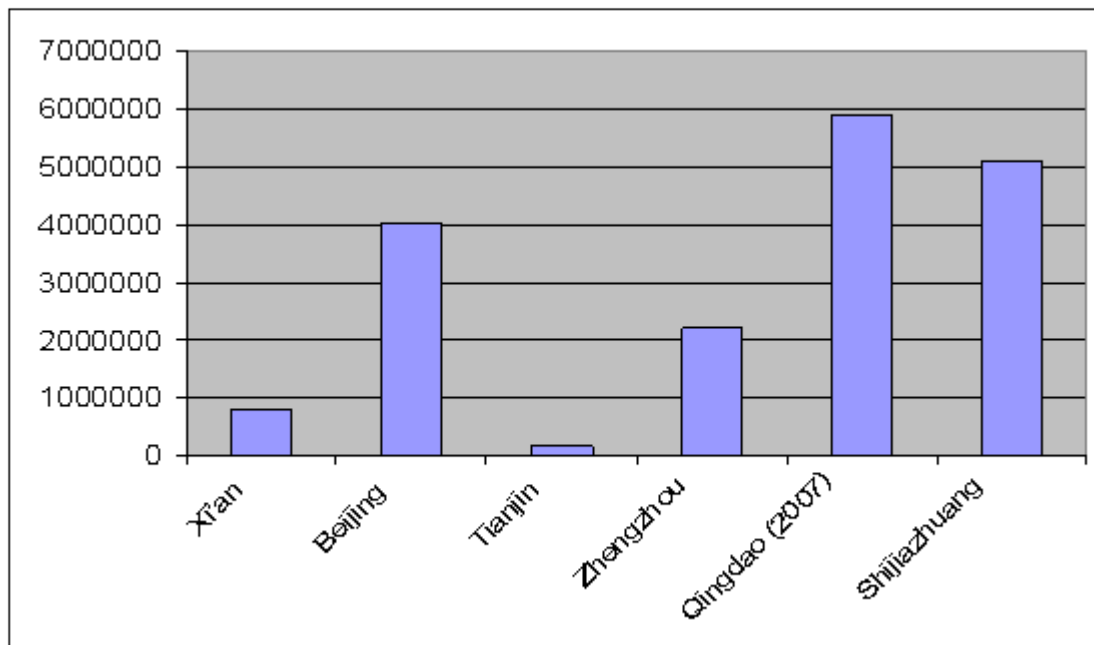
#### Potential products:

- Meats and seafood

### **Food Processing Sector**

Xi'an is a major regional center of food processing and trade -- although it lags behind the coast and other emerging cities such as Qingdao, Shijiazhuang and Zhengzhou.

**Table 6: Food Processing and Manufacturing Industry Output Value of Six Major Markets in North China 2006 (RMB Yuan)**



*Sources: Statistical Yearbook of Xi'an, Beijing, Tianjin, Zhengzhou, Shijiazhuang 2007 and Statistical Yearbook Qingdao 2008.*

There are no competitive meat processing plants or manufacturers in Xi'an, nor any major dairy producers or seafood processors. Some limited food manufacturing businesses are confined to initial processing of locally grown products, such as wheat, soft drinks, edible oil, and liquor to meet local demand. However, Shaanxi Province has supported the establishment of a large apple production area to export both fresh apples and apple juice.

Miqi Food Company is the largest bakery enterprise in Xi'an, running the biggest number of outlets across the city. They are not using U.S. bakery ingredients because of their high price and a lack sufficient knowledge and awareness on how to use these products. Amongst U.S. ingredients, the most promising are dried fruits, nuts and dairy products. U.S. wheat was also used in the past and could be used again if the price were right.

#### Findings:

- There are few opportunities for U.S. meats and seafood for food processing in Xi'an. However, dried fruits, nuts and dairy products could be promising.

#### Potential products:

- Dried fruits and nuts, and cheeses for bakery sector.

### **POST CONTACT AND FURTHER INFORMATION**

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